THE IMPACT OF FREE CASH FLOW ON THE FIRM VALUE

Undergraduate Thesis

Presented as Partial Fulfillment of the Requirement for the Degree of

Sarjana Ekonomi (S1) in Accounting Program Faculty of Economics

Universitas Atma Jaya Yogyakarta

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AUTHENTICITY ACKNOWLEDGEMENT

I hereby declare that the thesis with the title:

THE IMPACT OF FREE CASH FLOW ON THE FIRM VALUE

Is really my own thinking and writing. I fully acknowledge that my writing does not contain others' or part(s) of others writing, except for those that have been cited and mentioned in references.

Yogyakarta, March 14, 2016

Arief Shylvie Kumara Profita

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I recognize that there are a lot of imperfections in my thesis writings. I would be delighted to receive any suggestions and advice to enhance my thesis. In the end, I wish this thesis will be helpful for the readers.

Yogyakarta, 14 March 2016

Arief Shylvie Kumara Profita

Motto

"For indeed, with hardship will be ease. Indeed, with hardship will be ease".
(Al Insyirah 94:5-6)

Knowledge comes from learning. Wisdom comes from living.
-Anthony Douglas Williams

Remember that the reason you're doing this is to make your life better.

Today, pick your own pace and your own path. We all need a day to slow down, regroup and recharge.

Everything will be alright in the end. If it is not alright, it's not yet the end.
-Deborah Moggach

I dedicated this thesis for:

Allah SWT

My family

TABLE OF CONTENT

TITLE PAGE ..... **i**

SUPERVISOR APPROVAL ..... **ii**

THESIS APPROVAL ..... **iii**

AUTHENCITY ACKNOWLEDGEMENT ..... **iv**

ACKNOWLEDGEMENT ..... **v**

MOTTO ..... **vii**

TABLE OF CONTENT ..... **viii**

LIST OF TABLES ..... **xi**

LIST OF PICTURE ..... **xii**

LIST OF APPENDICES ..... **xiii**

ABSTRACT ..... **xiv**

CHAPTER I INTRODUCTION **1**

1.1 Background 1

1.2 Research Problem 6

1.3 Objectives of Research 6

1.4 Contributions of Research 6

CHAPTER II THEORITICAL FRAMEWORK AND THE HYPOTHESIS DEVELOPMENT **8**

2 .1 Theoretical Framework 8

2.1 .1 Free Cash Flow 8

2.1 .2 Agency Theory 13

2.1 .3 Firm Value 15

2.2 Previous Research 19

2.3 The Hypothesis Development 22

CHAPTER III RESEARCH DESIGN 26

3.1 Type of Research 26

3.2 Population and Sample 26

3.3 Type and Data Collection Method 27

3.4 The Definition and Measurement of Research Variables 28

3.4.1 Dependent Variable 28

3.4.2 Independent Variable 29

3.4.3 Control Variable 30

3.5 Research Model 33

3.6 Data Analysis Technique 33

3.6.1 Descriptive Statistics Analysis 33

3.6.2 Classical Assumption Test 33

3.6.2.1 Normality Test 34

3.6.2.2 Multicollinearity Test 35

3.6.2.3 Heteroskedasticity Test 35

3.6.2.4 Autocorrelation Test 36

3.6.3 Hypothesis Testing 37

CHAPTER IV DATA ANALYSIS AND DISCUSSION 39

4.1 Sample Selection 39

4.2 Descriptive Statistics 40

4.3 Classical Assumption Test 41

4.3.1 Normality Test 41

4.3.2 Multicollinearity Test 43

4.3.3 Heteroskedasticity Test 44

4.3.4 Autocorrelation Test 45

4.4 HypothesisTesting 46

4.5 Discussion 48

CHAPTER V CONCLUSION AND SUGGESTION 50

5.1 Conclusion 50

5.2 Suggestion 51

REFERENCES 52

LIST OF TABLES

Table 4.1 Sample Selection..... 39

Table 4.2 Descriptive Statistics..... 40

Table 4.3 One-Sample Kolmogorov-Smirnov Test before Trimming..... 41

Table 4.4 Normality Test after Trimming.....42

Table 4.5 Normality Test after Transformation.....43

Table 4.6 Multicollinearity Test..... 44

Table 4.8 Durbin-Watson Test.....46

Table 4.9 Model Summary of Hypothesis Testing 47

LIST OF PICTURE

Picture 4.7 Scatterplot Diagram 45

LIST OF APPENDICES

Appendix A. List of Manufacturing Company

Appendix B. Publication Date of Financial Reports

Appendix C. Price to Book Value Ratio

Appendix D. Free Cash Flow

Appendix E. Debt Ratio

Appendix F. Firm Size

THE IMPACT OF FREE CASH FLOW ON THE FIRM VALUE

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Abstract

This study aimed to investigate the impact of free cash flow on the firm value. Manufacturing companies that listed in Indonesia Stock Exchange is chosen to be the sample of research and 303 companies during 2012-2014 were selected as the sample.

Firm value is the investor's perception towards the degree of success of a company. According to several previous researches, free cash flow becomes one of the factors that affect firm value. Some research said that the more free cash flow generated by the company, the higher the firm value. The other research found distinct result where the higher free cash flow owned by the company, the lower the firm value. thus, there is still a conflicting result regarding the effect of free cash flow towards firm value.

Free cash flow is calculated using the formula from Wang (2010) which later modified to adjust with certain regulation in Indonesia. Firm value is calculated by price to book value ratio. The result of study comes up with a conclusion that free cash flow has no positive impact on firm value. Thus, whether or not the company possesses free cash flow, it will not affect firm value as a whole. It is essential to have skillful manager that has the capability to manage free cash flow in order to utilize the cash for value-improving activity and not wasting it for unprofitable investment.

Keywords: free cash flow, firm value, price to book value